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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

AUG 1 1994

In the Matter of )  
 )  
Billed Party Preference for ) CC Docket No. 92-77  
0+ InterLATA Calls )  
 )

NYNEX COMMENTS

New York Telephone Company  
and  
New England Telephone and  
Telegraph Company

By: Edward R. Wholl  
William J. Balcerski

120 Bloomingdale Road  
White Plains, NY 10605  
(914) 644-2032

Their Attorneys

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## SUMMARY

In these Comments, NYNEX show that the costs of implementing billed party preference ("BPP") outweigh the benefits of BPP. The Commission should therefore not require the industry to spend over \$2 billion dollars to implement a service for which there appears to be little consumer demand. Instead of ordering LECs to implement BPP, the Commission should cap the rates charged by third-tier operator service providers. Such a cap would cause a dramatic decline in consumer complaints and save consumers hundreds of millions of dollar per year without requiring the industry to spend \$2 billion dollars.

The cost/benefit analysis contained in the Commission's Further Notice of Proposed Rulemaking is flawed in many respects. The Commission overstated the benefits of BPP and understated its costs. NYNEX has calculated the costs of BPP to be at least \$572 million per year and the benefits of BPP to be, at most, \$235 million per year.

In these Comments, NYNEX also demonstrates that if BPP is nevertheless mandated by the Commission, the costs associated with its implementation and administration should be recovered through an increase in the End User Common Line charge. Alternatively, the costs of BPP should be recovered through a per call charge on all operator service calls, including operator calls dialed on a 1-800 basis (e.g., 1-800-COLLECT). Finally, NYNEX also proposes several changes to BPP that should be made if the Commission decides to require its implementation.

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NYNEX COMMENTS

The NYNEX Telephone Companies ("NYNEX") hereby comment on the Commission's June 6, 1994 Further Notice of Proposed Rulemaking ("FNPRM") in the above-captioned matter.

I. INTRODUCTION

In the FNPRM, the Commission tentatively concluded that implementation of billed party preference ("BPP") would serve the public interest. The Commission found that BPP would provide three principal benefits:

- (1) it would simplify operator service calling and guarantee that the call would be carried by the billed party's preferred carrier (FNPRM, ¶¶ 10-11);
- (2) it would cause Operator Service Providers (OSPs) to refocus their competitive efforts on serving end users rather than paying commissions to premises owners (FNPRM, ¶¶ 12-13); and
- (3) it would enable AT&T's competitors to offer end users the same 0+ access as AT&T offers (FNPRM, ¶¶ 14-15).

The Commission estimated that implementation of BPP would result in consumer savings of approximately \$620 million per year.

On the other hand, the Commission also found that BPP would have detrimental effects on customers and competition.

First, BPP would cost almost \$420 million annually to implement and administer (FNPRM, ¶¶ 20-28). Second, BPP could degrade service quality on 0+ calls (FNPRM, ¶¶ 29-31). Finally, the Commission found that BPP could have an adverse effect on competition in the operator services marketplace (FNPRM, ¶¶ 32-35). Although the Commission tentatively concluded that, on balance, the benefits of BPP (\$620 million) outweighed its costs (\$420 million), it asked for further comments on its analysis.

In Section II of these Comments, NYNEX will show that the Commission's cost/benefit analysis is flawed. Based on the use of the most current, and best, data available, NYNEX has calculated the costs of BPP to be at least \$572 million per year and the benefits of BPP to be, at most, \$235 million per year. Because the costs of BPP so far outweigh its benefits, BPP should not be mandated by the Commission. The Commission should not require the industry to spend over \$2 billion dollars to implement a service for which there appears to be little consumer demand.

In Section III, NYNEX will demonstrate that if BPP is nevertheless mandated by the Commission, the costs associated with its implementation and administration should be recovered through a per call charge on all operator service calls, including operator calls dialed on a 1-800 basis (e.g., 1-800-COLLECT). Finally, in Section IV, NYNEX also proposes several changes to BPP that should be made if the Commission decides to require its implementation.

II. THE COMMISSION'S COST/BENEFIT ANALYSIS IS FLAWED.

A. The Commission Has Overstated The Benefits Of BPP.

In the FNPRM, the Commission found that the benefits of BPP to the consumer would amount to approximately \$620 million per year on interLATA 0+ and 0- calls. The Commission reasoned that these benefits would be produced by two factors. First, the Commission found that OSPs would be forced to reduce their rates or lose 0+ traffic. The Commission estimated this rate reduction to be \$280 million per year. Second, the Commission also found that OSPs' commission payments to premises owners and payphone providers would be eliminated and thus reduce OSP costs by \$340 million per year. The Commission found that the savings in the commission payments would also be passed along to consumers in the form of lower OSP rates.

These savings are grossly overstated. As shown below, the savings to consumers resulting from BPP will be no more than \$235 million per year.

1. The Commission Has Overstated The Annual Savings On InterLATA 0+ Commissions.

In calculating the \$340 million commission savings, the Commission assumed that by 1997, when BPP is implemented, 50% of operator service calls will be made on a dial-around basis. The Commission's analysis also assumes that state regulatory commissions will adopt BPP for intrastate interLATA calls. Both assumptions are unfounded.

The data available to NYNEX demonstrates that the Commission has underestimated the number of dial-around calls.

NYNEX recently conducted an analysis of 75,000 operator service calls made from 459 payphones during April/May 1994. The data shows that 50,000 or 66% of the operator service calls were made on a dial-around basis. 45% were made using a 1-800 service, 16% were dialed on a 10XXX basis and 5% were made by dialing 950-10XX. The study also revealed that access codes and 1-800 operator services were used to make a significant number of intraLATA calls despite the fact that it would have been cheaper to make these calls on a 0+ basis.<sup>1</sup>

It should not be surprising that consumers are finding it convenient to make dial-around calls. MCI and AT&T are heavily advertising their 1-800 operator services and it is clear that both carriers expect huge increases in the number of 1-800 operator service calls. For example, MCI, which has been one of the staunchest supporters of BPP, has been running television commercials which tout how easy it is to make a collect call by simply dialing 1-800-COLLECT.<sup>2</sup> Furthermore, in the May 30, 1994 issue of Telecommunications Reports, MCI's Chairman and CEO describes 1-800-COLLECT as MCI's "fastest-growing product ever." And, in the June 13, 1994 issue of Business Week, MCI states that over 18 million homes have received collect calls via its 1-800 number in the program's first year, up from 4.5 million collect calls through MCI the year before.

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<sup>1</sup> Of the 50,000 calls that were made on a dial-around basis, approximately 14,000 calls were intraLATA with nearly 9,000 of these calls made using a 1-800 operator service.

<sup>2</sup> See Attachment A hereto.

AT&T has also stated that it will continue to heavily market its dial-around operator services, such as 1-800-CALL-ATT.<sup>3</sup> Indeed, AT&T has an obvious incentive to do so since it is likely to lose market share if BPP is implemented.

NYNEX thus believes that the Commission's assumption that only 50% of all operator service calls will be made on a dial-around basis by year end 1997 is unrealistic. The dial-around rate already exceeds 50% and is increasing by nearly 20% per year in the NYNEX region. NYNEX believes that at least 80% of all operator service calls will be made using 1-800 services by 1997.

The Commission's cost/benefit analysis also assumes that state regulatory commissions will adopt BPP for intrastate interLATA calls. In the NYNEX region, this is not likely to occur. As the Commission notes in the FNPRM, the New York Public Service Commission opposes FCC imposition of BPP on intrastate interLATA calls.<sup>4</sup> In addition, other regulators in the NYNEX region have informally voiced their opposition to BPP.

As shown in Attachment B hereto, if the Commission's cost/benefit analysis is adjusted to reflect an 80% dial-around rate and to exclude intrastate calls, the commission "savings" resulting from implementation of BPP are reduced from \$340 million to approximately \$93 million.

Finally, the Commission's analysis further assumes that all commission "savings" will be returned, dollar for

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<sup>3</sup> See AT&T ex parte of December 14, 1993.

<sup>4</sup> FNPRM, ¶ 40.



dollar, to consumers in the form of reduced OSP rates. NYNEX believes that this assumption is incorrect. Advertising by the OSPs will intensify under BPP in an attempt to secure an increase in market share. Instead of paying commissions to aggregators, the OSPs will be spending these "saved" commission payments on advertising their 1-800 operator services. These increased advertising costs will obviously be passed along to consumers. In addition, as the Commission correctly notes in the FNPRM, it can be expected that call aggregators and premises owners will seek to recover lost commissions through higher prices of goods and services.<sup>5</sup> Thus, any savings on "commissions" will not result in lower rates to the consumer.

2. The Commission Has Overstated The Rate Reduction.

In calculating the \$280 million rate reduction, the Commission assumed that third tier OSPs will be forced to lower their rates and charge no more than the average rate charged by AT&T/MCI/Sprint.<sup>6</sup> The Commission also assumed that state regulatory commissions will adopt BPP for intrastate interLATA calls. Both assumptions are unfounded.

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<sup>5</sup> Indeed, many of the parties that have already filed comments in this proceeding have stated that they will seek to recover lost commissions from consumers. See, e.g., Comments of Airport Authority of Washoe County (July 1, 1994) (lost commissions will result in higher airline ticket prices).

<sup>6</sup> The Commission found that third-tier OSPs charge \$.53 per minute and that the average rate for AT&T, MCI and Sprint is \$.34 per minute. The Commission then assumed that with the implementation of BPP, one third of anticipated third-tier OSP revenues in 1997 would be priced at the AT&T/MCI/Sprint average rate rather than higher third-tier rates.

The Commission's assumption that third-tier OSPs would charge the same rate as MCI/AT&T/Sprint is not realistic and certainly not based on any evidence in the record. It is unlikely that the OSP costs of providing service are the same as the three largest carriers. The third-tier OSPs cannot realize the economies of scale that the three largest carriers enjoy.

The Commission also assumes that state regulatory commissions will adopt BPP for intrastate interLATA calls. As discussed above, this is not likely to occur in the NYNEX region.

As shown in Attachment B hereto, if the Commission's cost/benefit analysis is adjusted to reflect a 15% differential between OSP and large IC rates and to exclude intrastate calls, the rate reduction resulting from implementation of BPP is decreased from \$280 million to \$143 million. Thus, NYNEX calculates the benefits of BPP to be, at most, \$235 million per year and may be considerably less if OSPs do not pass through commission savings to consumers.

3. The Introduction Of PCS Technology Will Also Reduce BPP Benefits.

The Commission seeks comment on the impact that wireless technologies will have on its cost/benefit analysis. NYNEX believes that PCS technologies are likely to result in a significant decrease in public telephone calls and the associated need to use OSPs. NYNEX estimates that the number of calls from public payphones will decrease by 50% within 5 to 7

years of PCS deployment.<sup>7</sup> The Commission must carefully assess the impact that wireless services will have on public telephone usage before requiring LECs to expend over \$2 billion dollars to implement a service -- BPP -- for which there appears to be little consumer demand.

B. The Commission Has Understated The Costs of BPP.

In the FNPRM, the Commission found that BPP would likely cost \$420 million per year. These costs are grossly understated. NYNEX believes that the costs to consumers will be at least \$572 million per year.<sup>8</sup>

1. The Commission Must Include The Costs Of OSS7.

The Commission tentatively concluded that the entire costs of OSS7 software should be attributed to BPP. This conclusion is correct. NYNEX has no plans to deploy OSS7 software except to provide BPP and has no plans to use OSS7 software for any other services. It is thus appropriate to attribute the full costs of OSS7 software to BPP.

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<sup>7</sup> A 1992 CTIA study projects that 34.3% of current landline customers will subscribe to PCS services within 10 years after PCS deployment. In addition, a 1992 Bellcore market research study analyzed the migration of calls from public phones. Based on these two studies, NYNEX arrived at its 50% projected loss of payphone traffic.

<sup>8</sup> As explained in Attachment C, NYNEX has revised its costs of providing BPP. NYNEX now estimates that it will incur \$120.4 million in non-recurring costs and \$20.7 million in recurring costs to implement BPP in its region. This does not include the non-recurring costs of providing 14 digit screening which is estimated at \$3.8 million in the NYNEX region.

Although BPP could be provided without OSS7 software, it would significantly increase call set-up time on operator service calls.<sup>9</sup> NYNEX estimates that without OSS7, it will take at least four seconds longer to set up a BPP call.<sup>10</sup> Clearly, service quality would be seriously degraded with BPP unless OSS7 were used.

2. The Commission Must Adjust Costs for Inflation.

Although the Commission assumes that the benefits of BPP will increase between now and 1997, the Commission assumes that the costs of implementing BPP will not increase between now and 1997. Clearly, this is not likely to occur. If the costs submitted by the LECs are increased to take into effect the projected rates of inflation to 1997,<sup>11</sup> the costs of BPP would increase from \$572.4 million to \$632.7 million.

3. The Costs of 14 Digit Screening Are Substantial.

The costs submitted by the LECs do not include the costs of 14 digit screening on calling card calls. If the LECs must provide 14 digit screening, they will incur substantial non-recurring costs. The software costs for the Service Control Point (SCP) and Database Administration (DBAS-II) systems are

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<sup>9</sup> With OSS7, the call signalling information can be sent on a communications channel separate from the channel used for the voice communication itself.

<sup>10</sup> See Bellcore Special Report SR-NWT-002251, Issue I (February 1992). This study compares call set up time on 800 data base calls using MF and SS7 signalling.

<sup>11</sup> The Consumer Price Index is projected to increase by 3.1% in 1995, 3.5% in 1996, and 3.6% in 1997.

estimated at \$12.3 million for the BOCs and hardware costs are estimated at \$800,000 per large LEC.<sup>12</sup> In addition, the LECs will have to incur administrative costs for changing and maintaining the service order system. For NYNEX, these administrative costs are estimated at \$800,000 per year.

4. The Commission's Costs for Independent LECs are Understated.

The Commission's cost estimates for GTE and other independent LECs are inaccurate. In Appendix C of the FNPRM, GTE's non-recurring costs are listed at \$112.4 million. However, this does not include OSS7 costs of \$188 million as noted in GTE's June 25, 1993 and July 2, 1993 ex parte filings with the Commission.<sup>13</sup>

The Commission's cost data for other independent LECs is based on a November 13, 1993 ex parte filing by USTA. The USTA data shows \$197.8 million in non-recurring costs and \$17.5 million in recurring costs.<sup>14</sup>

However, USTA understated the costs of OSS7 software since it calculated these costs based on the number of access

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12 This assumes that no more than three ICs will issue 14 digit calling cards and that no more than 20 PINS will be issued. If more than three ICs utilize 14 digit calling cards, the costs will increase substantially.

13 The Commission has tentatively, and correctly, concluded that OSS7 software is needed to provide BPP.

14 NYNEX understands that USTA will be submitting new cost data in response to the FNPRM and that this data will not include BPP costs for GTE, United Telephone, Cincinnati Bell and Southern New England Telephone (SNET). United and SNET are already on record in this proceeding with \$121.2 million in non-recurring costs and \$18.8 million in recurring costs.

lines rather than the number of end offices in independent LEC territories. According to USTA's November 16, 1993 ex parte filing, there were 4,118 equal access end offices which must be equipped with OSS7 signalling. NYNEX estimates that the OSS7 software costs will increase significantly and that total non-recurring costs for the independent LECs will increase to approximately \$320 million.

Finally, USTA did not include any costs for the 3,404 non-equal access end offices in independent LEC territories. Since the Commission has determined that independent LECs must provide BPP,<sup>15</sup> the costs of providing BPP in these non-equal access end offices must be developed and placed on the record to arrive at total BPP costs.<sup>16</sup>

5. The Commission Has Failed to Include Overhead Loading Factors.

The Commission should apply overhead loading factors to BPP costs. Overhead loadings must be applied to investment-related expenses (e.g., TOPs switch upgrades and LIDB computer hardware) in order to determine the complete costs of

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<sup>15</sup> FNPRM, ¶ 49.

<sup>16</sup> While BOCs could provide operator services, including BPP, to independent LECs, there would be costs associated with this type of arrangement, (e.g., trunking) which would need to be captured on record before a complete analysis of BPP costs could be made. In addition, there could be a substantial increase in call set-up time. If the BOCs do not provide BPP to independent LECs, then independent LECs will have to convert these non-equal access offices, which will require a substantial expenditure of money.

BPP. This could increase BPP costs by an additional 25% as some LECs stated in their ex parte filings.<sup>17</sup>

6. OSP Costs Will Not Decrease.

The Commission arbitrarily reduced LEC Automated Alternate Billing Services (AABS) and operator related non-recurring costs by 50% on the basis that these increased LEC costs would be offset by cost reductions to OSPs. However, since the OSPs have already paid for the AABS and operator equipment, there will be no cost reduction for the OSPs. And, the LECs must still purchase the additional operator facilities. If the LECs' AABS and operator related non-recurring costs are not arbitrarily reduced by 50%, the total annual BPP costs increase by \$89.4 million as shown in Attachment D.

\* \* \* \*

Based on the foregoing, NYNEX calculates that the total annual cost of BPP is at least \$572 million<sup>18</sup> compared to benefits of \$235 million. Thus, NYNEX estimates that implementation of BPP will result in total annual costs to the consumer of \$337 million.<sup>19</sup> The Commission should therefore not order the LECs to implement BPP. The costs of BPP clearly outweigh its benefits.

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<sup>17</sup> FNPRM, n.44. In the NYNEX region, overhead loadings amount to \$5.2 million or 9.8% of total BPP annual costs.

<sup>18</sup> See Attachment D. These costs do not include overhead loadings, the costs of 14 digit screening, the costs that independent LECs must incur to provide BPP in non-equal access offices, and inflation.

<sup>19</sup> See Attachment E.

C. A Less Expensive Alternative To BPP Is Available.

As the Commission notes in the FNPRM, implementation of BPP will help protect consumers from being overcharged on operator service calls. However, there is a simple way of accomplishing this without requiring LECs and OSPs to spend over \$2 billion dollars. The Commission simply has to cap OSP rates at a reasonable level.

Based on the 1991 TOCSIA report, NYNEX has calculated that the average weighted charge for operator service calls for AT&T, MCI, Sprint and third-tier OSPs is \$.37 per minute. The Commission could establish a rule that allows OSPs to charge up to 10% over this weighted rate (*i.e.*, \$.41 per minute) without cost justification. If an OSP wanted to charge more than this presumptively reasonable rate, it would have to file tariffs with full cost support data. Such a cap would result in total consumer savings of \$264 million without requiring the LECs or any other carriers to incur any BPP costs. It would also likely result in a dramatic decline in the number of consumer complaints filed with the Commission. Clearly, capping OSP rates is a simple, effective and far less costly alternative to BPP that could save, and not cost, consumers hundreds of millions of dollars per year.<sup>20</sup>

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<sup>20</sup> In a press announcement on June 5, 1994, U.S. Rep. Charles E. Schumer of New York announced that he would be introducing federal legislation to cap interstate and intercontinental long distance telephone rates at the level of the dominant carrier unless the carrier can prove a need to impose a higher rate. See Attachment F. In the NYNEX region, OSP rates are capped in Massachusetts and there is legislation pending before Governor Cuomo which would do the same in New York.



III. THE COMMISSION MUST ENSURE THAT THE COSTS OF BPP ARE FULLY RECOVERED.

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In the FNPRM, the Commission concludes that BPP should be treated as a new service for the purposes of price caps. However, the Commission seeks comments on whether the costs of BPP should be recovered from BPP calls, from BPP and 10XXX calls, or from all operator service calls, including 1-800 operator service calls.

As noted in NYNEX's July 7, 1992 Comments in this proceeding, NYNEX continues to believe that the best method of ensuring recovery of BPP costs is through a surcharge on the EUCL. NYNEX estimates that the increase in the monthly EUCL charge would be no more than \$.29.<sup>21</sup>

If the Commission does not use this cost recovery mechanism, then NYNEX recommends that the cost of BPP be recovered from all operator service calls, including 1-800. As noted above, 51% of the operator service calls in the NYNEX region are currently made using a 1-800 or 950-10XX operator service, and the number of 1-800 calls is growing rapidly. Only 49% of the calls are made on an 0+ or 10XXX basis. If calls to 1-800 and 950-10XX operator services are excluded from a cost recovery mechanism for BPP costs, the cost per call for BPP would be \$.35 as opposed to \$.17.<sup>22</sup> The likely result is that interexchange carriers would continue to promote the use of

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<sup>21</sup> See Attachment C-1.

<sup>22</sup> If overhead costs are included, the cost per call for BPP would be \$.19. See Attachment C-1.

their 1-800 operator services to avoid the BPP charge.<sup>23</sup> This would increase the BPP per-call price even further, and likely leave the LECs with stranded investment.

In the alternative, to lessen the incentive of ICs to encourage their customers to dial-around and to ensure that the full costs of BPP are recovered, NYNEX recommends that the Commission allow all BPP costs that are not recovered from the LIDB dip charge to be bulk billed to the OSPs based on the number of 1-800, 950-10XX and 10XXX calls to these carriers. This bulk billing would be based on the OSPs' respective percentage of interstate operator service calls.

If BPP is implemented, separations changes are also necessary to ensure that the costs are properly allocated between the state and interstate jurisdictions. Under current separations rules, approximately 75% of the costs of BPP would be assigned to intrastate even though, according to a recent NYNEX study, only 24% of operator assisted calls are intrastate. In order to correct this mismatch, a separations rule change would be needed.

#### IV. IF THE COMMISSION ORDERS BPP, SEVERAL CHANGES SHOULD BE MADE.

As demonstrated above, NYNEX believes BPP's costs outweigh its benefits and therefore should not be implemented. If the Commission nevertheless orders BPP, several changes must be made.

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<sup>23</sup> As noted earlier, NYNEX estimates that the dial-around rate will be 80% by 1997.

A. Breadth of Coverage. If BPP is implemented, NYNEX agrees that it should apply to 0- as well as 0+ interLATA traffic, including calls originating from residential phones and in non-equal access areas. To avoid customer confusion, BPP should also be implemented by all carriers including CAPs and independent LECs. NYNEX has no objection to exempting inmate telephones from BPP. However, if operator service calls from inmate phones are exempted, the per call BPP charge for all other operator service calls will increase.

B. Selection of Carriers. NYNEX agrees that if BPP is implemented, the carrier selection procedures outlined in the FNPRM should be utilized. Customers who do not respond to a LEC notice should be defaulted to their existing 1+ carrier since this is the carrier that the customer has already selected.

If a secondary OSP for 0+ calls is permitted, it should be chosen by the primary OSP, not the end user customer. The choice of a secondary OSP by the customer would add greater administrative burdens to the LECs, and increase still further the cost of providing BPP.

C. 14 Digit Screening in LIDB. If BPP were implemented, the Commission should not require the LECs to perform 14 digit screening. As noted above, this is likely to result in a substantial increase in the costs of BPP. In addition, the incorporation of 14 digit screening as part of BPP would greatly increase the potential for fraud and in many cases cause lengthy and complex operator contacts to resolve problems associated with this screening.

D. Commercial Credit Cards. If BPP is implemented, NYNEX agrees that it would be technically feasible to accommodate commercial credit cards that conform to ISO/ANSI standards on the same basis as 891 and CIID calling cards. However, there are many other issues that need to be resolved. For example, NYNEX believes that when a commercial credit card is used, the call should be carried by the billed party's preferred carrier, not the carrier preferred by the credit card issuer. However, the Commission has not indicated whether commercial credit card issuers would be subject to the same balloting requirements that LECs must follow. It is also not clear whether LECs or ICs will honor commercial credit cards unless agreements are reached on matters such as surcharges, settlements, responsibility for carrier identification charge, etc.<sup>24</sup> NYNEX believes that the LECs should not be ordered to honor commercial credit cards if BPP is ordered until these issues are resolved through further industry proceedings.

E. Restrictions on Dialing Around. If BPP is implemented, NYNEX agrees that the Commission should amend its rules to prohibit call aggregators from programming their phones to convert 0+ calls into 10XXX 0+ or 1+ calls that bypass the BPP system. If aggregators were to do so, it would drive the per-call price for BPP still higher.

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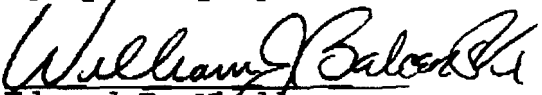
<sup>24</sup> For example, under BPP, if a customer used a commercial credit card to make a long-distance call, NYNEX would have to query the card issuer's LIDB in order to determine the billed party's preferred carrier. It is not clear whether the card issuer would charge NYNEX for accessing the LIDB or how NYNEX would recover that charge from the carrier.

F. Timing. NYNEX believes that if the Commission were to order the LECs to implement BPP, it could be implemented within three years of a Commission order mandating it. However, this date assumes that the necessary equipment and software would be available from the vendors on a timely basis.

V. CONCLUSION

NYNEX has shown that the costs of BPP (\$572 million) outweigh its benefits (\$235 million) and thus LECs should not be required to implement BPP. The Commission should not require the industry to spend over \$2 billion dollars to implement BPP in the absence of substantial consumer demand and benefits. Instead of ordering LECs to implement BPP, the Commission should cap OSP rates. If, however, the Commission decides that BPP should nevertheless be implemented, the costs of BPP should be recovered through an increase in the End User Common Line Charge. Alternatively, the costs of BPP should be recovered from all operator service calls, including 1-800 calls. Furthermore, the BPP proposal should be modified in certain respects to avoid unnecessary costs to consumers.

Respectfully submitted,  
New York Telephone Company  
and  
New England Telephone and  
Telegraph Company

By:   
Edward R. Wholl  
William J. Balcerski

120 Bloomingdale Road  
White Plains, NY 10605  
(914) 644-2032

Their Attorneys

Dated: August 1, 1994  
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**VIDEO MONITORING  
SERVICES  
OF AMERICA, INC.**

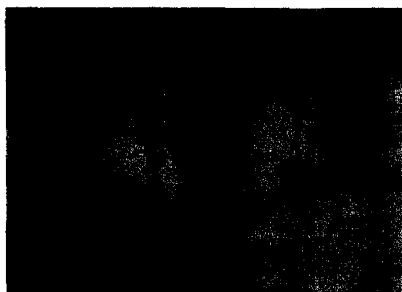
330 WEST 42ND STREET,  
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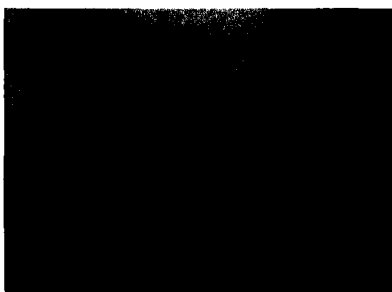
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Attachment A

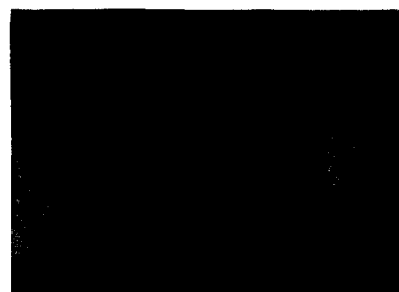
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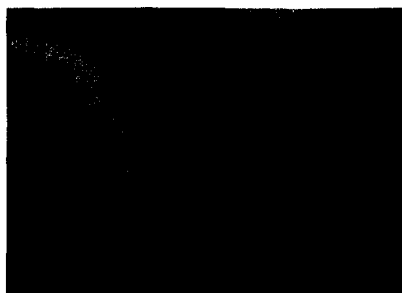
DAVID SPADE: Calling collect.  
You've got options.



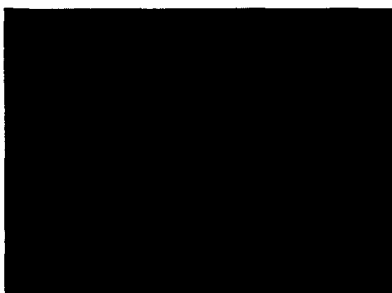
You can dial zero like



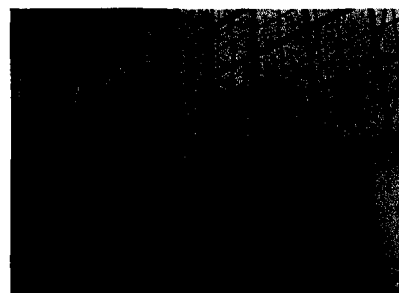
this guy.



(HE DOES CHILD-LIKE VOICE): Hi,  
mommy! I rode on the plane all by  
myself. (IN NORMAL VOICE) Did I  
mention you'll be charged as much  
as you possibly can for this call?



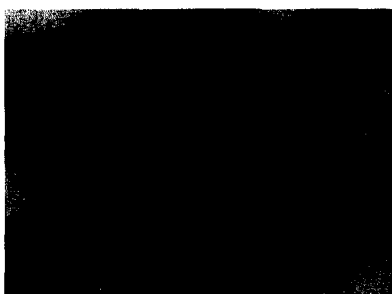
Or...



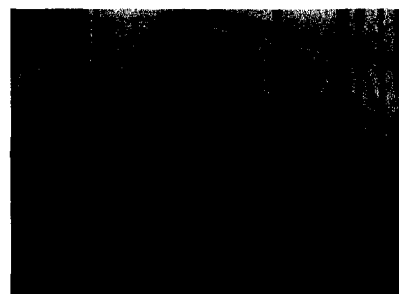
you can dial 1-800-COLLECT. Here's  
how it works.



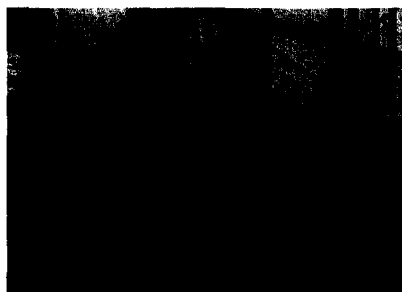
Dial 1-800-COLLECT.



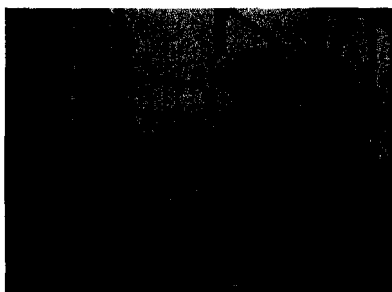
Yeah. I just saved you some cash.  
You're welcome. (HANGS UP PHONE)  
Love ya.



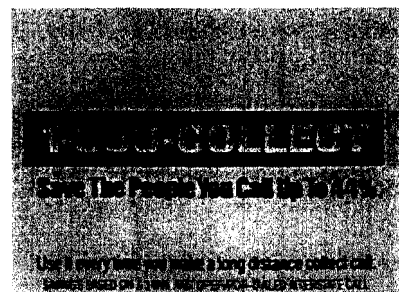
(TO MAN): Called mom collect, huh?  
You know you could've save up to  
44% by dialing 1-800-COLLECT.



(DAVID SPADE WALKS AWAY)



CALVERT DEFOREST: Can you find it  
in your heart to forgive me?



(SFX: THUD EFFECT) (GRFX: USE IT  
EVERY TIME YOU MAKE A LONG  
DISTANCE COLLECT CALL; SAVINGS  
BASED ON A 3 MIN. AT&T OPERATOR  
DIALED INTERSTATE CALL.)

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BENEFITS OF BPPA. Consumer Savings Caused by Rate Reductions

The Commission states that BPP would force third tier OSPs to lower their rates and charge no more than \$.34 per minute, the rate charged by AT&T/MCI/Sprint. The Commission estimates this rate reduction would save consumers approximately \$280 million per year (FNPRM, ¶ 11).

NYNEX believes third tier OSPs must charge more per minute than AT&T/MCI/Sprint since these OSPs do not have the economies of scale that the three largest carriers enjoy. It is thus unreasonable to assume that third tier OSPs could lower their rates from \$.53 per minute to \$.34 per minute and still recover their costs.

NYNEX estimates that OSP costs are at least 15% higher than AT&T/MCI/Sprint and that their rates would thus be at least 15% higher or \$.39 per minute (\$.34 x 15% = \$.05 + \$.34 = \$.39). Using a \$.14 rate differential rather than the \$.19 rate differential utilized by the Commission produces far less in consumer savings.

\$.14/\$.53	X \$1.2B	= \$317M
\$317M	X 1.043 <sup>6</sup> (growth over 6 years)	= \$408M
\$408M	X .666 (to reflect migration)*	= \$272M
\$272M	X .762 (percentage of interLATA calls, both intrastate and interstate)	= \$207M savings

The Commission's cost/benefit analysis also assumes that BPP will apply to intrastate interLATA calls. In the NYNEX region, this is not likely to occur. As the Commission notes in the FNPRM, the New York Public Service Commission opposes FCC imposition of BPP on intrastate calls. In addition, other regulators in the NYNEX region have informally voiced their opposition to BPP in their jurisdictions. If it is assumed that BPP will only apply to interstate interLATA calls, consumer savings resulting from BPP will decrease by \$64.2M to \$142.8M.

\$.14/\$.53	X \$1.2B	= \$317M
\$317M	X .043	= \$408M
\$408M	X .666	= \$272M
\$272M	X .525 (interLATA interstate calls only)	= \$142.8M savings

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\* The Commission has assumed that the combined market share of third-tier OSPs will drop by about one-third as callers increasingly dial around those third-tier OSPs with the highest rates.

The Commission's cost/benefit analysis also fails to recognize the impact that PCS will have in the public telephone marketplace.

NYNEX expects a 50% decrease in calling volume from payphones 5 to 7 years after PCS deployment. Since the frequency auction has not yet been held and a specified technology has not yet been decided, NYNEX believes that the most aggressive schedule for deployment of an effective, ubiquitous PCS service is at least 2 years away. Therefore, the precipitous drop off in payphone usage can be expected in 7 to 9 years. With BPP proposed for implementation in 1997, this would result in serious cost recovery problems in the 4th year after BPP deployment.

B. CONSUMER SAVINGS CAUSED BY REDUCTIONS IN COMMISSION PAYMENTS

The Commission's analysis on the elimination of commissions must be revised in the same fashion as the OSP rate reduction analysis. As a bare minimum, the Commission must obtain current data regarding:

- Operator service revenues from aggregator telephones
- Total OSP commissions to aggregators
- Interstate/intrastate percentage of OSP billed revenues

The Commission's analysis assumes that BPP will eliminate commission payments by OSPs and thus reduce OSP costs by \$340 million per year. The Commission further assumes that the annual savings on commission payments will be returned, dollar for dollar, to consumers in the form of reduced OSP rates. NYNEX believes that these assumptions are incorrect.

Advertising by the OSPs will intensify under BPP in an attempt to secure an increase in market share. Instead of paying commissions to aggregators, the OSPs will be spending these commission dollars to advertise to consumers their 1-800 operator services. These increased advertising costs will be passed along to consumers.

NYNEX projects that by 1997, 80% of all operator service calls in the NYNEX area will be dial around calls. In addition, NYNEX believes that operator service revenues associated with intrastate calls should not be considered since it is not clear that BPP will be implemented for intrastate calls. If these two adjustments to the Commission's analysis are made, the commission savings are drastically reduced from \$340 million to \$118 million.

\$6.1B revenue	X .043	= \$7.9B
\$7.9B	adj. for traffic migration	= \$7.7B
\$7.7B	X 63.7% interstate calls	= \$4.9B
\$4.9B	X 20% non-dial around calls	= \$0.98B
\$0.98B	X 12% commission rate	= \$118M savings



Using the Commission's rationale, this \$118 million commission savings must be further reduced by \$22M per year to compensate for the increased payments that OSPs will have to make to COCOT providers. Finally, commissions must also be reduced to reflect the \$142.8M reduction in third tier OSP revenues caused by BPP. This figure would be \$3.4 million ( $\$142.8\text{M} \times 20\%$  non-dial around  $\times 12\%$  commission rate). Thus the total consumer savings resulting from elimination of commissions would be \$92.6 million ( $\$118\text{M} - \$22\text{M} - \$3.4\text{M}$ ). As noted above, it is highly unlikely that OSPs will reduce their rates by this amount.

Thus, NYNEX calculates that the total benefits of BPP will be no more than \$235 million ( $\$142.8\text{M} + \$92.6\text{M}$ ). Since these benefits are far less than the costs of BPP, it is clear that BPP is not in the public interest and should not be mandated.